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INDUSTRIAL DEVELOPMENT FUND

Estimated resource level and programming for 1992 and 1993

Report by the Director-General

Summary

Reviews the current pledging pattern of the Industrial Development Fund and submits proposals for the programming thrust for 1992-1993.

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Introduction

1. The Financial Regulations of UNIDO stipulate that the Industrial Development Fund (IDF) shall be financed by voluntary contributions to the Organization and such other income as is provided for in the Financial Regulations. Furthermore, the Director-General shall administer IDF in accordance with the general policy guidelines governing the operations of the Fund that are established by the General Conference, or by the Industrial Development Board acting on behalf of the Conference, and in accordance with the Financial Regulations (regulation 6.2).

2. In accordance with financial rule 106.11, "contributions to the Fund may be accepted by the Director-General in currencies chosen by the contributors, provided that such currencies are readily usable for the purpose of the contribution concerned. The Director-General may draw the attention of prospective contributors to those currencies that are readily usable or freely convertible into currencies readily usable for the execution of the activities of the Fund and for the reimbursement of the programme support costs and administrative costs of the Fund. He or she may negotiate with the Governments concerned regarding the conversion or reconversion of voluntary contributions."

3. In decision IDB.7/Dec.10 the Board, recalling General Conference decision GC.3/Dec.25, took note of the report of the Director-General on IDF (IDB.7/2) and of the programming thrust for 1991 and 1992 proposed in chapter II of that document and decided to delegate authority to the Director-General to approve projects for financing under the Fund in 1991-1992 taking into account the priority areas of the medium-term plan, 1990-1995 (GC.3/17, chap. I). With reference to financial rule 106.11 and in the light of the critical situation of the general-purpose convertible segment of the Fund as well as to allow for programming flexibility, the Board urged all donor Governments to provide part of their contributions to the general-purpose convertible segment of the Fund or to increase such contributions so that a minimum annual level of $5 million under that segment might be achieved as soon as possible; it also urged donor Governments holding balances in the Fund to make the interest income accruing on those balances available to the general-purpose convertible segment. Furthermore, the Board urged Member States to reconsider their IDF pledging policies to ensure that the desirable annual funding level of $50 million be reached as soon as possible, and encouraged them to consider providing umbrella contributions for financing preparatory assistance activities of large-scale projects and programmes as proposed in document IDB.7/2, paragraph 15 (c).

I. ESTIMATED RESOURCE LEVEL

4. The size and composition of IDF pledges fluctuated considerably in 1989 and 1990. The announced pledges ammounted to $29.8 million in

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1990, as compared to $39.3 million in 1989. The decrease in overall resources was due to the change in the pledging pattern of one donor which made a unique and exceptionally high contribution to the Fund in 1989. That situation was however partially counterbalanced by the announcement of pledges by new donors and by the increase in pledges by some traditional donors. Considering the positive developments of new donors to the Fund, there are grounds to believe that the desirable annual funding level of $50 million for the United Nations Industrial Development Fund (UNIDF) as endorsed by the General Assembly in resolution 32/166 of December 1977 will be reached soon. As regards the general-purpose convertible segment of the Fund, a level of $1.5 million was unexpectedly reached in 1990 when some special-purpose donors, in response to Board decision IDB.7/Dec.10, pledged part of their contributions to the general-purpose segment of the Fund. Encouraged by this action, the Secretariat will continue to seek the co-operation of donors in trying to reach the annual target of $5 million set by the General Conference for that segment (GC.3/Dec.25 (d)).

II. PROGRAMMING THRUST, 1992-1993

A. IDF in relation to the medium-term plan, 1990-1995 and other policy directives

5. As the main resource for operational field activities that can be programmed by UNIDO, IDF addresses the priorities set by Member States in the medium-term plan, 1990-1995 (GC.3/17, paras. 20-21). Within that framework, IDF is one of the main mechanisms that enables the Secretariat to fulfil its mandate to promote the development and transfer of technology as well as to accelerate industrial development not only at the national, but also at the global, regional and sectoral levels. It represents one of the modalities for mobilization of financial resources for industrial development in the form of technical assistance and investment promotion.

6. Based on the main mandate of the Fund and on the actual priority allocations in past years, it is envisaged that priority will continue to be awarded to human resource development, development and transfer of technology and promotional activities for the mobilization of financial resources for industrial development.

7. To the extent possible and considering that the largest portion of the Fund consists of special-purpose contributions, the Secretariat will continue to ensure a fair geographical distribution of resources. Particular attention will be devoted to supporting co-operation with least developed countries which are hardly in a position to benefit from direct investment flows from other countries.

8. The purpose of the Fund as decided by the General Assembly for UNIDF in December 1976, under resolution 31/202, annex I, was to enhance the ability of UNIDO to meet, promptly and flexibly, the needs of the developing countries by supplementing the assistance provided by the United Nations and United Nations Development Programme (UNDP). Distinct from conventional sources of technical assistance financing, IDF is thus being used - as far as possible - to finance innovative, non-traditional industry-related projects of a pilot character and with relevance to as large a number of countries as possible.

9. This mandate is still relevant in the context of the recent evolution of world technology and the constraints faced by developing countries in their technological development efforts as outlined in the draft medium-term plan, 1992-1997 (IDB.7/7, paras. 40-42). As a result, IDF will have an important role to play in mobilizing and appropriately applying the transfer of new and advanced technologies in order to ensure better quality of products and better environmental sustainability. Since technology projects will require highly technical implementation capabilities, full agency execution will be necessary.

10. As explained in previous reports, IDF has traditionally been the main financing mechanism for the promotion of global and interregional projects and programmes. Such "horizontal" assistance activities, which are awarded high priority in the medium-term plan, 1990-1995, can be better developed through a multilateral channel, and the Fund has proven to be a financing channel that is flexible enough to promote and successfully co-ordinate multi-donor financing. It is envisaged that IDF will increasingly support the financing of comprehensive programmes of technical co-operation that focus on countries or regions for the development or rehabilitation of specific subsectors of industry and/or on industrial areas such as: industrial training related to the development and transfer of particular technologies; standardization and quality control; food processing and agro-based industries; environmental protection and pollution control; small and rural industries; and integration of women in industrial development.

11. Demand for UNIDO involvement is expected to increase in the "up-front" activities of technical co-operation such as policy advice, sectoral and subsectoral studies and surveys, integrated programme development and the preparation of programme and project concepts on international priority themes that also feature as a priority in country development plans. UNIDO will be able to provide such support services, subject to availability of adequate resources. The Fund will be a preferred channel in this respect since one of the criteria for IDF financing is to ensure maximum impact of resources and to use funds as "seed money" for projects with a multiplier effect. For such activities the availability of freely usable convertible funds is of great importance. At the same time, the capacity and capability of UNIDO to provide highly qualified support services could enable donor country development aid institutions to draw on UNIDO services in relevant areas.

12. The mobilization of financial resources for industrial development, a thematic focus in the medium-term plan, is aimed primarily at seeking new ways of increasing the international flow of funds to invest in restructuring and revitalizing industry in developing countries. For that reason IDF will increasingly be used for promotional activities to increase the flow of resources to productive investment projects. Support will be provided to industrial investment planning and policy formulation processes; identification, appraisal and promotion of industrial investment and rehabilitation opportunities; and promotion of enterprise-to-enterprise co-operation involving direct foreign investment and technical co-operation agreements. The activities of the Investment Promotion Services, which are sponsored through IDF special-purpose contributions, will prove instrumental in that respect.

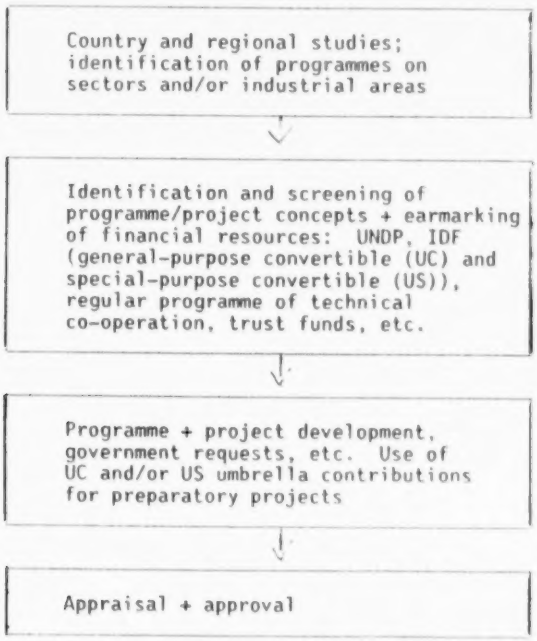
B. Programming and management modalities

13. Strict quality control measures will be applied to the appraisal of IDF projects. Emphasis will continue to be placed on project design and

appropriate screening and approval mechanisms. This will ensure not only that the individual IDF projects are well designed and presented, but also that they meet the priorities of the recipient countries and, in particular, that they fit into their overall socio-economic framework.

14. IDF projects and programmes will be developed within the framework of a UNIDO strategy for a given country and/or region. A new integrated programming approach will be followed through teamwork by substantive units in UNIDO concerned with project development (see IDB.7/CRP.5, paras. 6-12). Particular attention will be devoted to identifying or developing IDF projects/programmes linked to other operational activities of the United Nations system and to bilateral technical co-operation programmes. To the maximum possible extent, IDF will be earmarked at the project concept stage for particular programmes and component projects through appropriate screening mechanisms and involvement of donors. Projects/programmes to be financed from a special-purpose contribution will be formulated or developed through a partnership between the recipient Government(s), the donor Government(s) and the Secretariat. Flexibility will be maintained so that urgent and unforeseeable requests can also be accommodated within the overall UNIDO strategy for the country or region. In this context, "freely and promptly" programmable general convertible resources will prove instrumental.

15. Reproduced below is a flow chart on the pre-approval project cycle as it is envisaged in the future:


Country and regional studies; identification of programmes on sectors and/or industrial areas
Identification and screening of programme/project concepts + earmarking of financial resources: UNDP, IDF (general-purpose convertible (UC) and special-purpose convertible (US)), regular programme of technical co-operation, trust funds, etc.
Programme + project development, government requests, etc. Use of UC and/or US umbrella contributions for preparatory projects
Appraisal + approval

16. After project approval the transparency of the ongoing IDF activities will be ensured through continuous monitoring and evaluation as well as reporting to donors and policy-making organs.

17. To streamline procedures, reduce administrative costs and help to enhance prompt, effective assistance, the Secretariat intends to continue negotiating with donor Governments a number of time- and cost-saving measures. Such a streamlining of project preparatory work through a speedier approval mechanism should benefit the donor administrations and the UNIDO Secretariat as well as the recipient side. Examples of time- and cost-saving measures were already given in document IDB.7/2-PBC.6/2, paragraph 15, as follows:

(a) Harmonization of legal and administrataive procedures for the respective special-purpose contributions through the conclusion, wherever possible, of basic agreements with donor Governments;

(b) Streamlining of approval procedures for project and programme budget revisions through a higher degree of authority delegated to the Secretariat;

(c) Provision by donor Governments of umbrella contributions to be programmed freely by the Secretariat whthin the framework of sectoral and geographical priorities agreed upon;

(d) Presentation of project profiles at an early stage of the programming process;

(e) Provision by donor Governments of multi-year pledges to facilitate medium-term planning and management of resources.

18. The decision-making process by donor Governments on their future pledges would be facilitated if information were provided of the fields of activities to be developed and for which funds would be required from the general convertible pool or from umbrella contributions for project preparation. With that in mind an indication is given below of the main themes for future programming by region.

(a) Africa

Fund-related activities will be developed in conjunction with, and complementary to, the programme for the Second Industrial Development Decade for Africa, which recognizes the need for inter-country and regional co-operation. Emphasis will thus be on the promotion of subregional/regional industrial enterprises, institutions and support services that would increase Africa's capacity to provide the basic needs of food, shelter, clothing, energy, transport and communications. The main orientation and overall approach of the national programmes will be towards the development of core industries, human resources, entrepreneurial capabilities, technological capacity in the private sector and small-scale industries, as well as industrial rehabilitation and maintenance, and mobilization of financial resources.

(b) Latin America and the Caribbean

The Regional Co-operation Programme for the Industrial Recovery of Latin America and the Caribbean will continue to be developed within the sectoral priority areas identified by the Industrial Development Board in decision IDB.5/Dec.25 as, inter alia, biotechnology, capital goods, electronics, new materials, data processing, human resources, and agro-industry.

Within the period under consideration, IDF resources will be sought in the fields of industrial automation for the capital goods industry, biotechnology, informatics and micro-electronics, industrial subcontracting, investment promotion and agro-industry. Within the scope of this programme, specific projects will be developed at the regional and subregional levels, i.e. Central America, the Caribbean, the Andean Group and the "Southern Cone".

(c) Asia and the Pacific

Given the scarcity of IDF resources, preference will be given to inter-country, interregional and global projects. Productivity and competitiveness are key issues in most of the economies of the region and trade has become increasingly open and liberal. Keeping pace with changes in technology, markets and access to markets, price structures, etc. requires large investments in human and physical resource development. Standardization, quality control and information technologies will have to be enhanced to support productivity and competitiveness. At the same time, for development to be sustainable, considerations such as a balanced geographical distribution and the impact of industry on the environment should be taken into account. In a competitive region, the concerns of the least developed countries have to be taken into account to ensure that they are integrated in the mainstream of development. More systematic efforts will also have to be made in support of subregional groupings, such as the Association of South-East Asian Nations, the South Asia Association for Regional Co-operation and the South Pacific Council in developing intra-regional policies and programmes for economic and technical co-operation in the manufacturing sector.

(d) Arab countries

Given the current features of the economic situation and the prospects and requirements for sustainable economic development of the region, the industrial sectoral priority areas could be outlined as follows:

(i) Development of core industries: agro-industries; petrochemical downstream industries; metallurgical industry; engineering industry; and high technology industries;

(ii) Development of human resources;

(iii) Transfer of technology;

(iv) Industrial information and documentation;

(v) Standardization, quality control and metrology;

(vi) Policy advice to control pollution in industry.

(e) Least developed countries

Ailing industries need to be revitalized where economically feasible; training opportunities should be expanded; preparation and evaluation of investment projects undertaken and industrial market studies/surveys carried out. Particular attention will be given to the following areas: rural development; upgrading industrial capabilities in the private sector; identification of new ways of supplying import-dependent industries with essential inputs and spare parts; the development of medium- and small-scale industries; improvement of infrastructures, including the institutional infrastructure; stimulation of food security and matching industrial and agricultural projects where possible; agro-industries and food processsing; rehabilitation of enterprises that have viable, long-term prospects in the subregion; and industrial master plans.

(f) Eastern European countries

Efforts will be made to mobilize resources, in addition to contributions devoted to developing countries, by approaching those institutions in industrialized countries promoting co-operation with Eastern European countries. Since bilateral assistance is provided mainly in the form of direct support to industry, UNIDO is in a position to supplement those activities in the form of neutral policy advice to Governments, preparation of sectoral, country and regional studies, and other supporting measures such as entrepreneurship development, assistance in the privatization process, upgrading of technology and promotion of production networks. Co-operation between Eastern European and developing countries will also be promoted. Such resources will be used so as to complement other resources including those of UNDP, in the case of IPF-recipient countries. It is anticipated that the full cost to UNIDO of supporting non-IPF countries will be covered by overhead income. It is UNIDO policy that the new activities for these countries should in no way detract from the efforts undertaken by UNIDO to assist developing countries.

C. Fund-raising activities

19. With the aim of strengthening fund-raising activities for IDF and thus reaching the desirable annual funding level of $50 million, the Secretariat will accord high priority to promoting co-financing arrangements among donors or with other sources of financing such as IPF or bilateral funds. IDF will thus be an important vehicle for the mobilization of additional funds. Special efforts will be required also to compensate for the major changes proposed by UNDP in respect of the new successor arrangements for agency support costs.

20. According to General Assembly resolution 31/202 which established UNIDF, the Fund was to consist in its totality of voluntary contributions of a general-purpose nature. Considering the vital need to dispose of an adequate percentage of freely programmable resources, continuous efforts will be undertaken to increase the size of the general-purpose segment of the Fund. The transparency of the activities financed from the general-purpose segment will be ensured through continuous monitoring, evaluation and reporting as mentioned in paragraph 13 above. Detailed information on the nature of projects financed from IDF will be provided to the Board and the Programme and Budget Committee on a yearly basis in the Annual Report of UNIDO and other documents. A positive response is expected of donor countries, particularly after the recent policy statements by some of the major donors in favour of clear-cut multilateral channels and methods of disbursement. The financial situation of the general convertible pool could also be relieved if donors that hold balances in the Fund could make available to the general pool the interest income accruing on those balances.

III. ACTION REQUIRED OF THE COMMITTEE

21. The Committee may wish to consider recommending to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report of the Director-General on the Industrial Development Fund contained in document IDB.8/11-PBC.7/14

and the programming thrust for 1992 and 1993 proposed in chapter II of that document;

"(b) Decides to delegate authority to the Director-General to approve projects for financing under the Fund in 1992-1993 in accordance with the priority areas of the medium-term plan, 1990-1995 (GC.3/17, chap. I);

"(c) With reference to financial rule 106.11 and in light of the critical situation of the general-purpose convertible segment of the Fund as well as to allow for programming flexibility, urges all donor Governments to provide part of their contributions to the general-purpose convertible segment of the Fund so that a minimum annual level of $5 million may be achieved as soon as possible;

"(d) Urges Member States to reconsider their IDF pledging policies to ensure that the desirable annual funding level of $50 million be reached as soon as possible;

"(e) Encourages Member States to consider providing umbrella contributions for financing preparatory assistance activities of large-scale projects and programmes (IDB.8/11-PBC.7/14, para. 17(c))."